

# **Possible impacts of EU-wide emissions trading scheme on joint implementation**

Kari Hämekoski and Harri Laurikka  
Electrowatt-Ekono Oy

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# Direct and indirect links

- EU-wide emissions trading scheme (EU ETS) will have an effect on JI and the use of Article 17 within Europe.
- EU ETS is linked with Article 17 of the Kyoto Protocol, but not with JI.
  - => JI requires a special link to the scheme.
- However, there are several indirect links

# Direct link: the Linking Proposal (1/2)

- The Common Position of EU ETS Directive includes a recital emphasising that recognition of credits from project-based mechanisms will increase the cost-effectiveness of achieving greenhouse gas emission reductions and that linking these to the EU ETS will be important and desirable.
- Directive on linking project-based mechanisms to ETS will be proposed (“the linking proposal”). The proposal is planned to be published by mid 2003.
- The idea is that the new Directive should apply in parallel with ETS starting in 2005 according to the current plans.
- There are still some open issues concerning the implementation of the of EU ETS Directive
- Very little information is currently available concerning the linking proposal.

# Direct link: the Linking Proposal (2/2)

- At least the following issues can be discussed:
  - New carbon market: EU allowance (EUA) market versus AAU, CER, ERU and RMU –market. It is unclear how the linking proposal would deal with this:
    - will there be “EU ERUs” different from and not fungible with ERUs?
    - fungibility between EUAs and “EU ERUs”?
  - There might be limitations on the use of project-based credits within EU ETS. This could also lead to separate ERU markets or at least differentiate “EU JI-projects” from “ordinary” JI projects with influence on credit prices
  - If the main GHG abatement measures fell under EU ETS in accession states, ERU flow from accession states would possibly be reduced. This could shift (some of) the interest in JI to countries outside the EU
  - EU ETS could boost the JI market in general if companies would have a direct opportunity to meet the cap/trade with JI credits
  - Uncertainties concerning ETS might reduce interest in JI due to the long lead time needed in JI project development

# Indirect links

- In addition, at least three indirect links can be identified:
  - EU ETS, when operational, could influence Member States' use of Kyoto Mechanisms due to likely different price development of allowances vs. ERUs, CERs and AAUs
  - Allocation of free allowances within EU ETS will also influence the use of the Kyoto Mechanisms, i.e. how “strict” the allocation would be in the sectors that fall under ETS
  - The final interpretation of complementarity would also influence JI: how much JI and other Kyoto Mechanisms could be utilised in order to meet the Kyoto target (50% being one possible solution)